THE SUGAR QUESTION IN THE UNITED STATES.

WITH the enactment of the tariff of 1890 the United States entered definitely on a policy of agricultural protection, especially in respect to sugar and wool, that looked to the ultimate supply of the home market by domestic production. The problem then presented by the sugar tariff — one purely of protection and revenue — has since been greatly complicated by the legacy to this country from the Spanish War of new responsibilities over important tropical sugar-producing areas. A colonial policy, as well as a tariff policy, is now involved in the sugar question.

Such complication, however, was not needed to render the problem difficult. There are three distinct classes of domestic sugar producers,— the cane planters of Louisiana, the beet factories of the West and the North, and the refiners,— with diverse, if not conflicting interests, each class demanding the highest possible protection for its own product. The cane-sugar planters, as a rule, place their product on the market raw, and sell it to the refiners. In the case of beet sugar, however, nearly the whole product outside of California is placed on the market by the factories already refined.* To the refiner, at once a buyer of raw sugar and a seller of refined, the

*The total production of beet sugar in 1899–1900 is given as 163,000,000 pounds, of which 115,000,000 pounds, or 70 per cent., was granulated, and 48,000,000 pounds, or 30 per cent., raw. In California nearly one-half (over 49 per cent.) of the total product was marketed raw and sold to refiners; but in the other States little more than 6 per cent. was unrefined. Twelfth Census, Report on Manufactures, Part III., p. 548. Compare Special Report on the Beet-sugar Industry of the United States (1898), p. 160.

The large output of raw sugar in California is doubtless due to the Spreckels investments in both the beet-sugar and the refining industry of that State.

duty on raw increases cost no less than the duty on refined enlarges the opportunity for profit. The cane-sugar producer desires a high duty on raw sugar, the beet-sugar producer a high duty on refined,* and the refiner a high differential between the two rates of duty. Opposed to these demands there is only the diffused interest of the consuming public, with no detailed knowledge concerning trade conditions or the inner workings of the tariff, and without organization, yet, when convinced of injustice, possessing irresistible strength and determination to right the wrong.

Fiscal as well as protectionist considerations have been important factors in determining the provisions of the sugar schedule. Sugar duties yield a large and comparatively certain revenue, and so offer an attractive opportunity to supply increased fiscal needs, in spite of the fact that part of the tax paid by consumers through higher prices is diverted from the treasury into the hands of producers. Indeed, protectionist feeling has been so pervasive † that even in tariffs framed primarily according to fiscal aims the so-called incidental protection afforded has been considered a merit rather than a necessary evil. Tariff reformers as well as protectionists have passed by coffee, an article produced only abroad, and levied on sugar the increased duties required. In England, on the contrary, coffee has been dutiable and sugar was free until war expenses made necessary in 1901 the imposition of a revenue duty also on sugar.

The last three tariff acts of the United States clearly reflect in their sugar provisions both fiscal conditions and the tariff views held by their framers. Thus the act of 1890, passed when there was a large treasury surplus that

* The fact that the beet-sugar product competes more or less actively with the output of refineries may cause a low differential to be preferred, provided that the duty on refined remains high.

† Report accompanying the Wilson bill, House Report No. 234, 53d Congress, 2d session, pp. 1, 6.

seemed a constant menace to the continuance of the protective system, admitted raw sugar free and provided for encouragement to domestic producers through a direct bounty. The need of increased revenue in 1894 led to the Wilson act, which, framed with little regard for protective effect, provided an ad valorem duty of 40 per cent. on all sugar imported, and an additional protective duty of one-eighth cent per pound on refined sugar. The Dingley act of 1897, while strongly protective like the McKinley act,* aimed to procure further increased revenue through higher rates on sugar levied in the form of graduated specific duties. In all three measures the sugar schedule was the product of the same fiscal and protectionist considerations that determined the general character of the legislation.

The tariff act of 1890 marked a new departure in the treatment of raw sugar. In earlier tariff legislation no inconsiderable protection had been afforded the Louisiana producers, incidentally or consciously; but the fact that the sugar industry of the whole country was localized in one-half of a single State operated strongly against the adoption of a vigorous policy of encouragement. The case was one in which there was little or no hope of the product becoming sufficient to supply the entire consumption of the country, and so, in the long run, resulting in reduced prices. The economic justification in the case of temporary "protection to young industries" was thus wanting. The political obstacle to the taxing of over 60,000,000 people for the benefit of a population of little more than half a million, without special organization, and controlling in Congress the representatives of but a single State, was of still greater force. The introduction of beet sugar, however, about the time that the McKinley bill was framed, made protection to raw sugar

* The first law, since the act of 1789, to declare expressly its protective purpose: "An Act To provide revenue for the Government and to encourage the industries of the United States."

a national instead of a sectional issue; for it gave promise of an ultimate domestic sugar product equal to the entire demand, and of a new industry that could be located in a broad belt of territory stretching from east to west across the United States.* In the act of 1890 a bounty to producers of raw sugar was accordingly granted for a definite period,—"on and after July first, eighteen hundred and ninety-one, and until July first, nineteen hundred and five,"—thus furnishing an apparently stable system of encouragement to the erection of new factories, and at the same time looking to the ultimate full growth of the industry. The purpose of the law, to build up an industry that would in time supply the entire consumption of sugar in this country, was not less new than the adoption of a bounty, instead of a duty, as the means to that end.

The protection accorded sugar under the McKinley act was slightly less than under the act of 1883. The duty under the old law was 1.96 cents per pound on sugar polarizing 89 degrees and 2.24 cents on 96-degree sugar. The bounty authorized by the law of 1890 was 1.75 cents on sugar testing from 80 to 90 degrees, and 2 cents on sugar testing 90 degrees or above. The conspicuous form of the protection granted, however, combined with its apparent permanence, exerted a marked effect on the domestic sugar industry.

In the cane-sugar industry, the transition then in progress from the old open-kettle to the vacuum-pan method of production was undoubtedly encouraged. During the crop year 1888–89, 57 per cent. of the total product in Louisiana consisted of vacuum-pan sugar. By 1890–91 the proportion had increased to 70 per cent. In 1893–

*Revision of the Tariff, Hearings before the Committee on Ways and Means, 51st Congress, 1st session (1889–90), pp. 645, 650, 651, 1098; House Report No. 1466, same session, pp. 14, 34; H. W. Wiley, The Sugar-beet Industry, Department Agriculture, Chemistry Bulletin No. 27 (1890), p. 169. Compare Special Report on the Beet-sugar Industry in the United States (1898), pp. 21–25.

94, the last crop on which the full bounty was paid, the relative importance of vacuum-pan sugar reached 88 per cent.*

The effect of the law in establishing the beet-sugar industry was even more important. From the production of 2,000 long tons during 1889–90, all in the State of California, and of 3,500 long tons in 1890–91, the industry has grown until a product of 163,000 long tons was reached during the season of 1901–02, contributed by ten different States. It is true that even with this large increase the total domestic production will probably fall below 20 per cent. of the consumption, and an enormous further expansion of the industry would be required to fulfil the expectations of the beet-sugar advocates in 1890. Nevertheless, the position of the beet-sugar producers has become exceedingly strong. The American Sugar Refining Company, while contesting with them the control of the Missouri River territory during the fall of 1901, acknowledged their strength by resorting to the most decisive movement in trust warfare,— the cutting of prices in the competitive territory far below those prevailing elsewhere.† The beet-sugar producers, moreover, partly perhaps through their organization in the American Beet Sugar Association,‡ have exerted powerful influence over Congressional legislation.

Heretofore the trust has shown itself jealous of any active competition that threatened to reduce prices. Its manipulation of prices throughout the beet territory in the fall of 1901 proved that the competition of the beet factories has come to be felt. Either a community of

* Statistics from Bouchereau's Louisiana Sugar Reports for the several years.

† Reciprocity with Cuba, Hearings before House Committee on Ways and Means, 57th Congress, 1st session (1902), pp. 239, 335; Cuban Sugar Sales, Hearings before Senate Committee on Relations with Cuba, same session, pp. 20–23, 47–51, 195–199, 219–223.

‡ Hearings, House Committee (1902), p. 170.

interest agreement (or, at least, understanding) with those producers, such as probably now exists with the independent refiners, or else the actual purchase of beet factories, seems the natural, if not a speedy, outcome of the conditions revealed by the rate war.

Countervailing Duties.

The act of 1890, as has been said, was the first that aimed to provide, through the introduction of the beet-sugar industry, a domestic sugar product sufficient to supply the entire consumption of this country; and it was the first to apply protection in the form of a bounty instead of a duty. It was also the first act that attempted to offset foreign protection through the imposition of special countervailing duties.

The achievement of Europe in transplanting the chief seat of sugar production from the tropics to the temperate zone is notable. It illustrates the enormous power of science and of law in determining the direction of industry; it magnifies the importance of the human elements of production — intelligence, labor, capital — in comparison with the physical elements. The European beet industry, through the careful experimental work required to make a successful fight against relatively adverse climatic conditions, has not only pursued the most scientific methods of intensive agriculture, but has contributed to the practice of sugar making vastly improved methods and machinery, which cane-sugar factories have been forced to adopt. The thirty years from 1870–71 to 1900–01 witnessed an increase in the beet-sugar crop from less than 1,000,000 metric tons to more than 6,000,000 metric tons. Of the total sugar production in 1870–71 beet sugar constituted less than 40 per cent. In 1882–83 for the first time the beet product exceeded the cane product, and except in 1885–86 and 1887–88 has contin-

uously maintained its lead. In 1900–01 beet sugar formed nearly two-thirds of the world's crop.*

The policy followed by Continental countries of encouraging through bounties or excessive drawbacks the exportation of their domestic sugar met with a widely different reception in England and in the United States. England with its free-trade policy apparently welcomed at first the lower prices enjoyed by its citizens. The United States, on the contrary, naturally viewed with suspicion the gratuity of its foreign rivals. The protective policy seemed to require as its logical complement the nullification, so far as possible, of foreign protection.

During the fiscal year ending June 30, 1890, more than one-fifth of the sugar not above No. 16 Dutch standard imported into the United States consisted of beet sugar, as compared with only 2 per cent. in 1888. Public attention was thus called to the large stock of European beet sugar seeking foreign markets. The export bounties then given by Germany were 1.25 marks per 100 kilograms on raw sugar and 2 marks on refined sugar,— about 13.5 cents and 21.6 cents respectively per 100 pounds. In order to prevent the reduced protection afforded refined sugar under the McKinley act from being further decreased by the operation of foreign bounty laws, a special additional duty of one-tenth cent — intended doubtless to offset the difference in the German bounties between raw and refined sugar — was imposed on all sugar above No. 16 Dutch standard, the export or the product of a country paying a higher bounty on sugar of that grade than "on raw sugar of a lower saccharine strength." The countervailing duty was thus introduced in behalf of the refining interests, and operated to increase the differential granted by the regular tariff.

*The World's Sugar Production and Consumption, in *Monthly Summary of Commerce and Finance* (Bureau of Statistics, Treasury Department), January, 1902, pp. 2589–2590, 2758–2761. See also J. F. Crowell, The Sugar Situation in Europe (*Political Science Quarterly*, March, 1899).

The act of 1894 did not change the amount of the countervailing duty, but extended it, perhaps inadvertently, so as to apply to all sugar imported, raw as well as refined.* In 1896 the German export bounty was increased to 2.50 marks per 100 kilograms on raw sugar and 3.55 marks on refined,—about 27 cents and 38.3 cents respectively per 100 pounds. The doubling of the German export bounty, combined with the decreased Cuban supply, caused a remarkable increase in the importation of beet sugar into this country. In the fiscal year 1897 fully 40 per cent. of the enormous importations in anticipation of increased duties consisted of beet sugar, principally from Germany.

The Dingley act of 1897 went much further than the preceding tariffs. It attempted to nullify completely all foreign bounties by providing a special countervailing duty, to be fixed by the Secretary of the Treasury, equivalent in amount to any bounty or grant bestowed by any foreign country on any article. That provision at once called forth protests from Germany and Austria.† It has been interpreted so broadly that even a special privilege in the home market resulting from the exportation of sugar has been construed a bounty within the meaning of the act, notwithstanding the absence of any government grant. The imposition of a countervailing duty on Russian sugar, in line with this interpretation, but contrary to the contention of Russia that there is no payment of bounty, not unnaturally called forth retaliation.‡

The effect of the countervailing duties on prices is important. Theoretically, price is determined by the cost of

*Tariff Hearings before Committee on Ways and Means, 54th Congress, 2d session (1896–97), p. 642.

†Senate Documents Nos. 97, 141, 55th Congress, 1st session (1897).

‡See Treasury Decisions, vol. iv., No. 17, April 25, 1901, pp. 13–27. No countervailing duty has been imposed to offset the German *Cartel*. See Hearings, House Committee (1902), pp. 549–553; Report of the Industrial Commission, vol. xviii., pp. 151–153; *Monthly Summary*, January, 1902, pp. 2601–2603.

the most expensive portion of the necessary supply. Unless some alternative, cheaper source of supply were available, sufficient in quantity to satisfy the whole demand, prices generally would be raised the entire amount of the duty. The presence of cheaper supplies, however, sufficient to render unnecessary resort to the product discriminated against, might prevent the rise of prices up to the maximum limit.

For foreign refined sugar recourse must be had to the European beet product. Under the act of 1894 about 85 per cent. of the imports above No. 16 Dutch standard consisted of beet sugar. A decrease in the imports of refined beet sugar occurred during the earlier years of the Dingley tariff, but was due to the abnormally low margin between raw and refined sugar prices in this country resulting from the refiners' war. The restoration of the one cent margin during the summer of 1900 was followed by increased imports of foreign refined, which came to the extent of nearly 90 per cent. from beet-producing countries, in spite of the high countervailing duty imposed by the Dingley act on bounty-fed sugar,—.383 cent in the case of German refined, besides the regular duty of 1.95 cents. The continued dependence on refined beet sugar, in the face of tariff discrimination, shows clearly the lack of any alternative supply of refined,* and leads to the conclusion that the price of such sugar, duty paid, is the sole limit to the prices of domestic refined imposed by foreign competition. It follows that the possible domestic price of refined sugar — the point below which foreign refined will not be freely imported — has been increased by the entire countervailing duty directed against the most expensive portion of the foreign supply that is needed for consumption in this country. When the actual prices for American granulated fall below that limit, the result must be credited to domestic competition.

* Aside from Chinese refined, imported to some extent on the Pacific coast.

In regard to raw sugar the effect of the discriminating duties is not so clear. Normally, cane sugar is sufficient in quantity to fill the domestic market, and thus fix a price independent of the countervailing duty. Thus, during the fiscal year 1898, at the beginning of which the market was well stocked, owing to the large anticipatory imports of the preceding year, only 5 per cent. of the total supply of sugar not above No. 16 Dutch standard had to be drawn from the beet-sugar product, only 1 per cent. prior to June, the last month of the fiscal year. During that year the New York price of 96-degree centrifugal ruled materially lower than the equivalent of Hamburg quotations for 88-analysis beet sugar with the countervailing duty added. The deficiency in the American market caused by the cessation of the Cuban supply was too great, however, to be filled completely and permanently by other cane sugar. Beet sugar was required to the extent of 18 per cent. of the total raw sugar imports in 1899 and 1900, and 19 per cent. in 1901. During those years the New York price fully equalled the Hamburg price with the countervailing duty added. The recent increase in the Cuban supply has now rendered the importation of beet sugar less necessary. During 1902 less than 7 per cent. of the raw sugar imported was beet. The New York price has again ranged below the equivalent of the Hamburg price, sometimes, as on January 16 and March 6, 1902, by the full amount of the countervailing duty (.27 cent per pound).* The conclusion seems clear that the countervailing duty on refined sugar tends to raise by its full amount the domestic price of refined sugar; that the countervailing on raw, when there is a full crop of cane sugar, does not correspondingly increase the domestic price of raw sugar; but that, since the passage of the present tariff, owing to the unusual scarcity of cane sugar that resulted from the Cuban War, the duty

* Compare Hearings, House Committee (1902), p. 237.

has actually operated in general to raise the price of raw as well as of refined sugar, resort to bounty-fed sugar being necessary in both cases.*

The table given on the following pages shows the quarterly movement of prices in Hamburg and New York from 1892 to the present time.† The graphic representation of columns (d) and (e) on the accompanying diagram illustrates more clearly the movement referred to in the text. The gradual change of prices in New York about August, 1894, and July, 1897, indicates how tariff changes are discounted in advance by the trade.

The countervailing duties in this country have operated as a special incentive to the importation of cane sugar. The movement has, however, been retarded by the failure of the Cuban crops, the lack of an adequate alternative supply of cane sugar, and the continually increasing crops of beet sugar. Cuba, after the outbreak of the war, was superseded by Germany as our chief source of supply, and Germany, after the increased countervailing duties of the Dingley act, by Java. In 1901 Cuba became again the largest contributor to our markets. Hawaii perhaps gained the most largely by the dearth of the cane-sugar supply. With Cuba out of the market, Germany handicapped by the countervailing duty, and Java subject to heavy freight charges, the protection already accorded Hawaiian producers was increased by practically the entire amount of the countervailing duty. Their shipments increased from 263,000,000 pounds in 1892 to 431,000,000 in 1897 and 721,000,000 in 1902.

* Prices are raised by the countervailing duties imposed on the sugar *actually required*. The higher rates imposed, such as those on French sugar, about .8 cent per pound on raw and 1 cent on refined, have suspended importation, but have had no direct effect on prices.

† A similar table, covering part of the period, is given in Willett & Gray's *Weekly Statistical Sugar Trade Journal*, February 27, 1902, and reprinted, with fuller explanations, in appendix to speech of Hon. Chester I. Long, delivered in the House of Representatives on April 11, 1902. Both Hamburg and New York quotations are taken from the various issues of Willett & Gray.

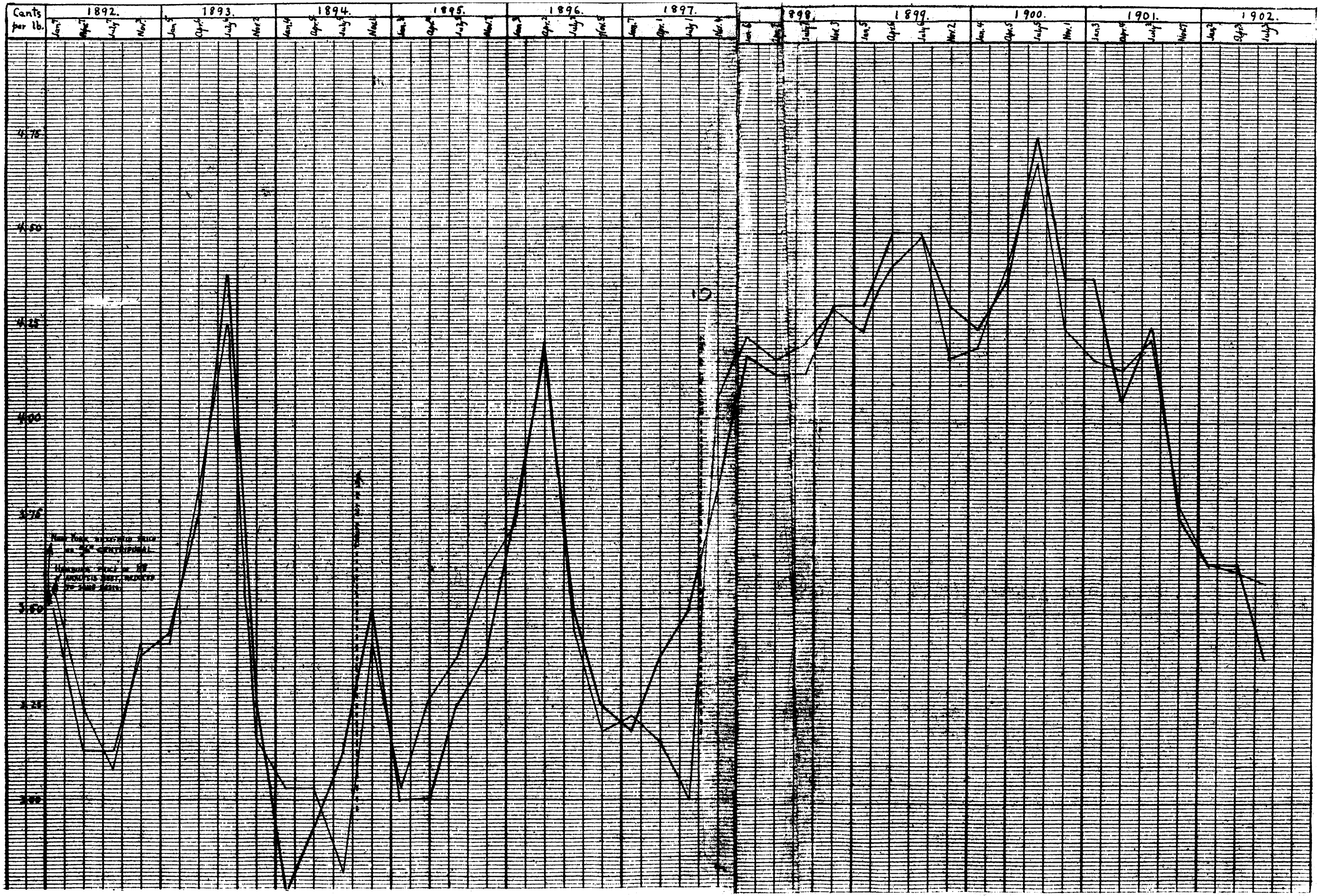
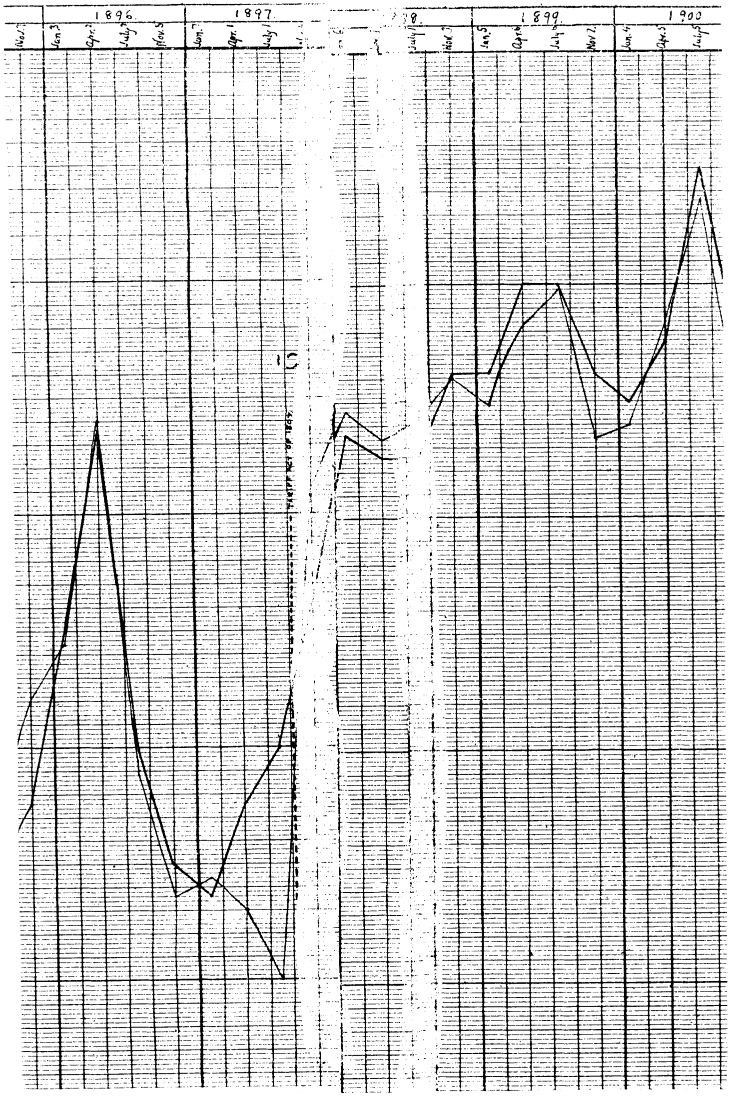


DIAGRAM I.—VARIATIONS OF NEW YORK PRICES OF SUGAR FROM THE
COST OF GERMAN BEET SUGAR DELIVERED IN NEW YORK.



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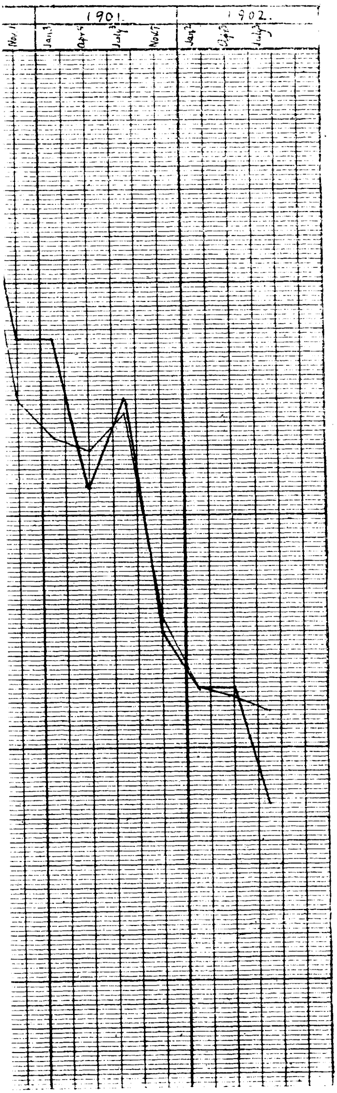
F GERMAN BEET SUGAR … YORK.


1901.
1902.
Nov 1
Jan 3
Apr 4
July 3
Nov 7
Jan 2
Apr 3
July 3

COMPARISON OF NEW YORK AND HAMBURG PRICES OF SUGAR, 1892–1902.

(a)	(b)		(c)	(d)	(e)	(e–d)
DATE.	88-analysis beet. Hamburg, f. o. b. Per cwt.		88-analysis beet. Hamburg, f. o. b. Per lb.	88-analysis beet. Reduced to parity with column (e).*	New York, duty paid, 96-degree centrifugal, per lb.	Excess of New York + or Hamburg —.
1892.	*s.*	*d.*	*Cents.*	*Cents.*	*Cents.*	*Cents.*
January 7	14	10½	3.23	3.54	3.50	—.04
April 7	13	6	2.93	3.24	3.13	—.11
July 7	12	9	2.77	3.08	3.13	+.05
November 3 †	14	3	3.10	3.41	3.38	—.03
1893.						
January 5	14	3	3.10	3.41	3.44	+.03
April 6	16	1½	3.50	3.81	3.75	—.06
July 6	18	1½	3.94	4.25	4.38	+.13
November 2	13	1½	2.85	3.16	3.25	+.09
1894.						
January 4	12	6	2.72	3.03	2.75	—.28
April 5	12	6	2.72	3.03	2.88	—.15
July 5	11	6	2.50	2.81	3.13	+.32
November 1	9	10½	2.15	3.41	3.50	+.09
1895.						
January 3	8	7½	1.87	3.03	3.00	—.03
April 4	9	4½	2.04	3.26	3.00	—.26
July 5	9	9	2.12	3.38	3.25	—.13
November 7	10	6	2.28	3.60	3.38	—.22
1896.						
January 3	10	10½	2.36	3.72	3.75	+.03
April 2	12	6	2.72	4.21	4.18	—.03
July 2	10	0	2.17	3.45	3.50	+.05
November 5	9	1½	1.98	3.18	3.25	+.07

* Obtained by adding to column (c) .11 cent for freight, insurance, etc.; .2 cent for commercial difference in value between 88-analysis beet (average polarization, 94 degrees) and 96-degree centrifugal sugar; the regular duty (40 per cent. of column (c) from August 27, 1894, to July 24, 1897, and 1.62 cents since that date); and the countervailing duty (.1 cent from August 27, 1894, to July 24, 1897, and .27 cent since that date). The total difference between columns (c) and (d) is thus .31 cent prior to August 27, 1894, .41 cent plus 40 per cent. of column (c) from August 27, 1894, to July 24, 1897, and 2.2 cents since that date.

† To avoid merely nominal quotations, the first week in November is taken instead of the first week in October.

COMPARISON OF NEW YORK AND HAMBURG PRICES OF SUGAR, 1892–1902.

Continued.

(a)	(b)		(c)	(d)	(e)	(e-d)
DATE.	88-analysis beet. Hamburg, f. o. b. Per cwt.		Per lb.	88-analysis beet. Reduced to parity with column (e).*	New York, duty paid, 96-degree centrifugal, per lb.	Excess of New York + or Hamburg —.
1897.	*s.*	*d.*	*Cents.*	*Cents.*	*Cents.*	*Cents.*
January 7 . . .	9	3	2.01	3.22	3.18	— 04
April 1	9	0	1.96	3.15	3.38	+.23
July 1	8	6	1.85	3.00	3.50	+.50
November 4 . . .	8	6	1 85	4.05	3.81	—.24
1898.						
January 6 . . .	9	4½	2 04	4.24	4.18	—.06
April 7	9	0¾	1.97	4.17	4.13	—.04
July 7	9	3	2.01	4.21	4.13	—.08
November 3 . . .	9	8¼	2.10	4.30	4.31	+.01
1899.						
January 5 . . .	9	4½	2 04	4.24	4.31	+.07
April 6	10	2¼	2.21	4.41	4.50	+.09
July 6	10	6¾	2.29	4.49	4.50	+.01
November 2 . . .	9	0¾	1.97	4 17	4.31	+.14
1900.						
January 4	9	2¼	2.00	4.20	4.25	+.05
April 5	10	2¼	2.21	4.41	4.38	—.03
July 5	11	5¼	2.48	4.68	4.75	+.07
November 1 . . .	9	5¼	2.05	4.25	4.38	+.13
1901.						
January 3	9	0¾	1.97	4.17	4.38	+.21
April 4	8	11¼	1.94	4.14	4.06	—.08
July 3	9	3¾	2.02	4.22	4.25	+.03
November 7 . . .	7	3	1.58	3.78	3.75	—.03
1902.						
January 2 . . .	6	6	1.41	3.61	3.63	+.02
February 6 . . .	6	8¼	1.45	3.65	3.69	+.04
March 6	6	6¾	1.43	3.63	3.38	—.25
April 3	6	6	1.41	3.61	3.63	+.02
May 1	6	3	1.36	3.56	3.50	—.06
June 5	6	1½	1 33	3.53	3.44	—.09
July 3	5	11¼	1.29	3.49	3.38	—.11

* See footnote on preceding page.

British statistics illustrate the other side of the movement. With no tariff discrimination between beet and cane sugar, it was natural that beet should be substituted for cane as far as possible, in order to permit the shipment to this country of the sugar not subject to the countervailing duty. In 1896 as in 1891, 25 per cent. of the total imports into the United Kingdom consisted of raw cane sugar. By 1901 the proportion had fallen to less than 10 per cent., and of that about one-half came from the British colonies. Refined beet sugar was imported in place of the cane sugar.

The Differential.

The extreme complexity that distinguishes the sugar schedule is especially in evidence when the protection to refining is considered. Even before the further complication of the problem by discriminating duties against bounty-aided foreign sugars and in favor of cane sugar from our insular dependencies, the accurate determination of the net protection afforded the refining interests seemed impossible. The so-called "differential" that measures this net protection is taken as the duty on one hundred pounds of refined sugar less the duty on sufficient raw sugar to produce that quantity of refined. How much raw sugar of various tests is lost in refining and what is the actual cost of refining are matters only of trade knowledge. In order to fix the drawback on exported sugar that is refined from foreign raw sugar, the Treasury Department has at different times drawn up tables, based on information furnished by refiners, showing the quantity of raw sugar at the various polariscopic tests required to produce one hundred pounds of refined.* While unavoidably colored, perhaps, to some extent in the interest of refiners, owing to the method of its prepara-

* Treasury Department, Circular No. 183 (1898). See also Senate Document No. 159, 55th Congress, 1st session (1897).

tion, the latest table corresponds closely enough to the actual facts to serve as a basis for estimating the differential under the various tariff acts.

The practical monopolization of information, both as to precise operation of the tariff and as to the methods and cost of refining, has given the refiners an overwhelming advantage in maintaining favorable tariff rates. This advantage, combined with strong organization and excellent lobbying facilities, has prevented any material reduction in the protection to refining, in spite of the strong public opposition to trust * production.

The absence of any large foreign supply of refined cane sugar leaves the maximum price of domestic refined limited only by the duty-paid price of imported beet sugar. The price of domestic refined may consequently, so far as foreign competition is concerned, be raised by the entire amount of the countervailing duty. The presence of sufficient raw cane sugar in full-crop years to supply the entire consumption in this country makes the domestic price of raw less directly affected by the countervailing duty imposed. It was accordingly argued in 1897 that the countervailing duty would operate to increase the differential on refined by .383 cent per pound,— the full countervailing duty on German refined. While such an effect is clearly possible under the law, the temporary cessation of the Cuban supply has, until recently, prevented it from being generally realized. In the calculation of the differential given below, the countervailing on refined is included in every case, while the duty on raw is given both ways, with the countervailing included to show the lower limit to the differential and excluded to show the upper limit.

* The term "trust" is here used broadly to denote industrial combinations. It is to be observed that Mr. Havemeyer, in his testimony before the Senate Committee on Relations with Cuba, frequently refers to the American Sugar Refining Company as "the trust." See Hearings, Senate Committee (1902), p. 52.

From July 1, 1887, to March 31, 1891, the last four years under the act of 1883, the average test of imported sugar (exclusive of imports from Hawaii) was a little above 90 degrees. The average test under the acts of 1890 and 1894 cannot be ascertained. During the four fiscal years under the present tariff, 1898 to 1901, the *average polariscopic test* was 93½ degrees for sugar imported under the regular tariff, exclusive of Hawaiian and, since April 30, 1900, of Porto Rican sugar. The regular duties levied under the act of 1894 amounted on the average to .8 cent per pound on sugar not above No. 16 Dutch standard, and to 1.18 cent on sugar above that limit. It is assumed that the importations under the act of 1894 — from August 27, 1894, to July 24, 1897 — had an average polariscopic test of 93 degrees.

The following tabular statement, based on the data just given, shows the probable net advantage to refiners accruing under recent tariff acts: —

PROBABLE DIFFERENTIAL ON REFINING UNDER THE TARIFF ACTS OF 1883, 1890, 1894, AND 1897.*

	Act of 1883.	*Act of* 1890.	*Act of* 1894.	*Act of* 1897.
(*a*) Duty on 100 pounds of sugar above No. 16 Dutch standard, including countervailing duty . .	$3.35	$0.60	$1.28	$2.33
Duty on 100 pounds of sugar not above No. 16 Dutch standard:				
(*b*) Including countervailing duty	$2.05	——	$0.90	$1.88
(*c*) Exclusive of countervailing duty			$0.80	$1.61
(*d*) Polariscopic test	91°	——	93°	93.5°
(*e*) Quantity of raw sugar, of the test indicated, required to produce 100 pounds of refined . . .	112.58	——	110.12	109.55

* Maple sugar and sugar imported from Hawaii and Porto Rico under special tariff exemptions are excluded. Under the act of 1883, only the period from July 1, 1887, to March 31, 1891, was used, and statistics for raw sugar relate to that not above No. 13 Dutch standard. The quantities given as required to produce 100 pounds of refined relate to raw cane sugar.

PROBABLE DIFFERENTIAL ON REFINING UNDER THE TARIFF ACTS OF 1883, 1890, 1894, and 1897.*— *Continued.*

		Act of 1883.	*Act of* 1890.	*Act of* 1894.	*Act of* 1897.
	Duty on quantity of raw required to produce 100 pounds of refined:				
(*be*)	Including countervailing duty on raw	$2.31	——	$0.99	$2.06
(*ce*)	Exclusive of countervailing duty on raw			$0.88	$1.76
	Differential on 100 pounds of refined:				
(*a–be*)	Including countervailing duty on raw and on refined	$1.04	$0.60	$0.29	$0.27
(*a–ce*)	Including countervailing duty on refined, but not on raw			$0.40	$0.57

Of the two rates of differential given for the acts of 1894 and 1897 the lower (that in which the countervailing duty on raw is included as well as that on refined) is believed to represent more closely the actual protection that has been accorded; the higher rate represents the possible protection in case of a cane-sugar product more than sufficient to supply the demand of this country.

A description has been given of the general effects of the countervailing duties imposed by the United States on sugar prices, on the composition of sugar imports into the United States and the United Kingdom, and on the differential protection to refining. The duties have had a further effect. Calling forth protests from Germany and Austria and retaliation by Russia, serving as a model for the imposition of similar duties for British India, cutting off to a large extent the American market from beet sugar, and probably influencing the United Kingdom in its stand against foreign bounties at the recent Brussels bounty conference, the countervailing duties of the United States have undoubtedly contributed largely to the abolition of the Continental bounty system on September 1, 1903, for which the governments represented in the conference have contracted.†

It seems probable, therefore, that the system of coun-

*See footnote on preceding page.

† Consular Reports, No. 260 (May, 1902), pp. 142–147.

tervailing duties will soon be rendered inoperative by the abolition of the Continental bounties that occasioned it. The resulting simplification of the sugar tariff, with the elimination of one source of hidden discrimination, is exceedingly desirable.

Territorial Expansion.

Another form of discrimination remains, however, which is bound up with the American colonial policy, and promises to become of increasing importance and increasing complexity.

Territorial expansion is more closely connected with the sugar trade than is commonly supposed. With regard to Hawaii the transition is clear from the old reciprocity treaty of 1875, through the intermediate stage of commercial occupation of the island by American capitalists investing in sugar plantations, to political annexation. With regard to the other dependencies the connection is not so obvious. Of our entire Cuban trade, which was suddenly interrupted by the outbreak of the war, sugar constituted over 60 per cent. during the years 1892–1896. Sugar, moreover, is now called on to pay the price for the guarantees against "entangling alliances" required from Cuba by the act of March 2, 1901,—the Platt amendment. It is by far the leading article of trade with Hawaii, Cuba, and Porto Rico, and ranks second only to manila hemp in our Philippine import trade.

Hawaiian Sugar.

The original purpose of the Hawaiian treaty was to obtain a coaling station in the Pacific. The heavy American investments in the islands that soon appeared became a stronger reason for maintaining the treaty. Opposition to the treaty, however, increased, particularly on the part of beet-sugar producers.* The danger of abrogation of the treaty led to strong efforts by the Hawaiian sugar pro-

*Tariff Hearings (1896–97), pp. 650, 673.

ducers to obtain annexation. The progress of events looking to the acquisition of the Spanish islands rendered easier the passage of the joint resolution of July 7, 1898, annexing the Hawaiian Islands to the United States.

The economic effects of the reciprocity treaty with Hawaii are of peculiar importance, because the special advantage granted under it was the earliest, and, save for the countervailing duties, the only discrimination applied in the sugar tariff prior to the Spanish War.

Some of the effects of the treaty are perfectly clear. There was an enormous expansion of the imports of sugar into this country from Hawaii and a large increase in the volume of the exports. In 1876 only 21,000,000 pounds of sugar were imported from Hawaii; in 1898, the last year under the treaty, 500,000,000 pounds; and in 1902 over 700,000,000 pounds,—a gain in the twenty-five years of more than thirty-fold. The entire export trade increased from $724,000 in 1876 to $5,800,000 in 1898. In none of the years after 1884, however,—except, of course, during the free-sugar period, 1891–1894,—did our entire domestic exports to Hawaii amount to as much as the duty remitted on the sugar imported. An estimate of the Treasury Department made some years ago * showed that the duties remitted on sugar under the reciprocity treaty prior to the act of 1890 reached over $50,000,000. The estimate there given of the amount remitted under the act of 1894 is probably too large,† but undoubtedly over $16,000,000 was remitted from the appeal of the McKinley act to the date of annexation.

The remission of the $66,000,000 of duties on the Hawaiian product, however, had no appreciable effect on

* *Monthly Summary*, May, 1898, p. 1807.

† In the Treasury estimate the duty was estimated at 40 per cent. of the import prices of Hawaiian sugar. But, as will be shown below, the Hawaiian prices were themselves raised by the amount of the duty remitted. The duty remitted must therefore be obtained by dividing the Hawaiian prices by 1.40 and then multiplying by 40 per cent.

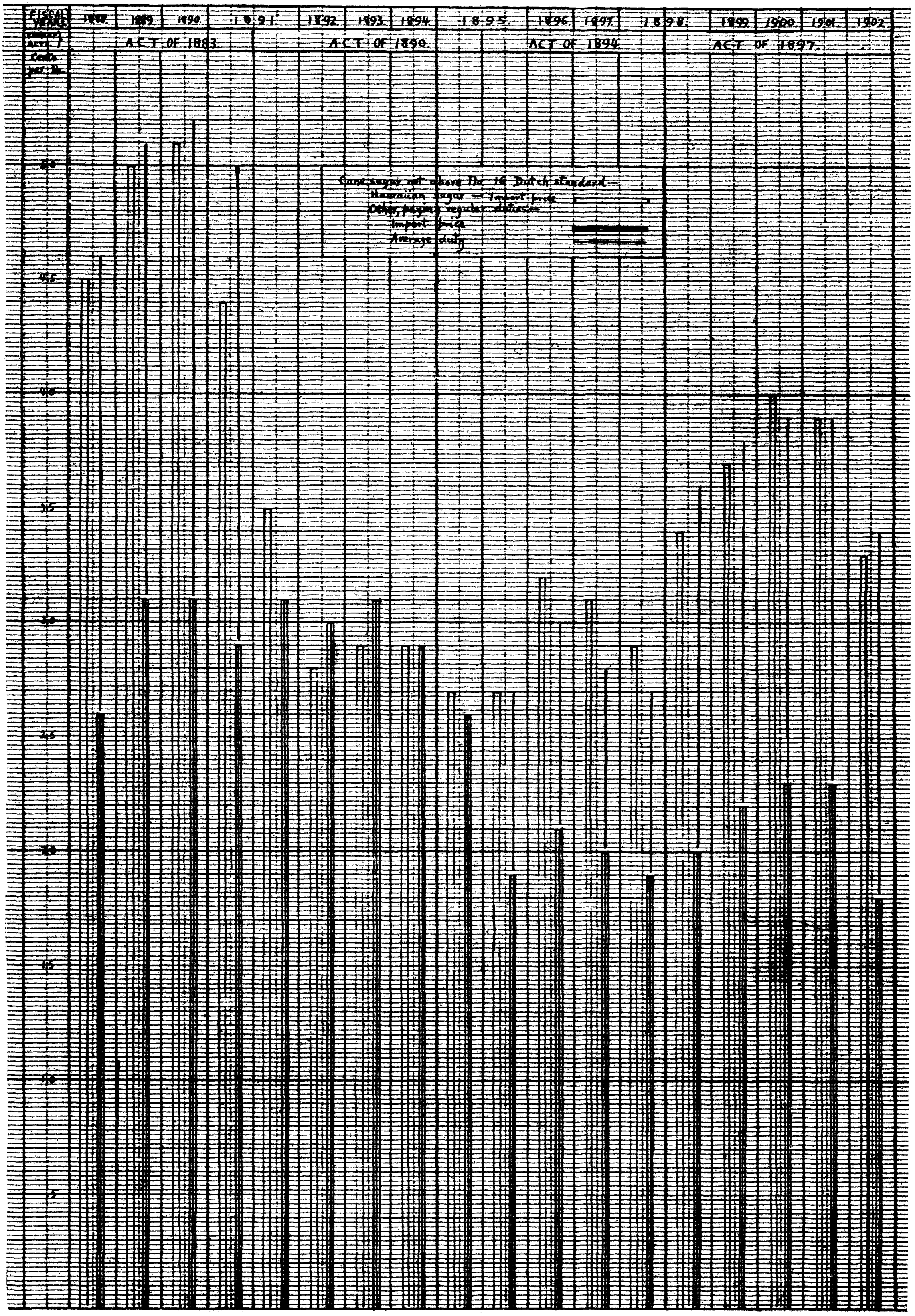
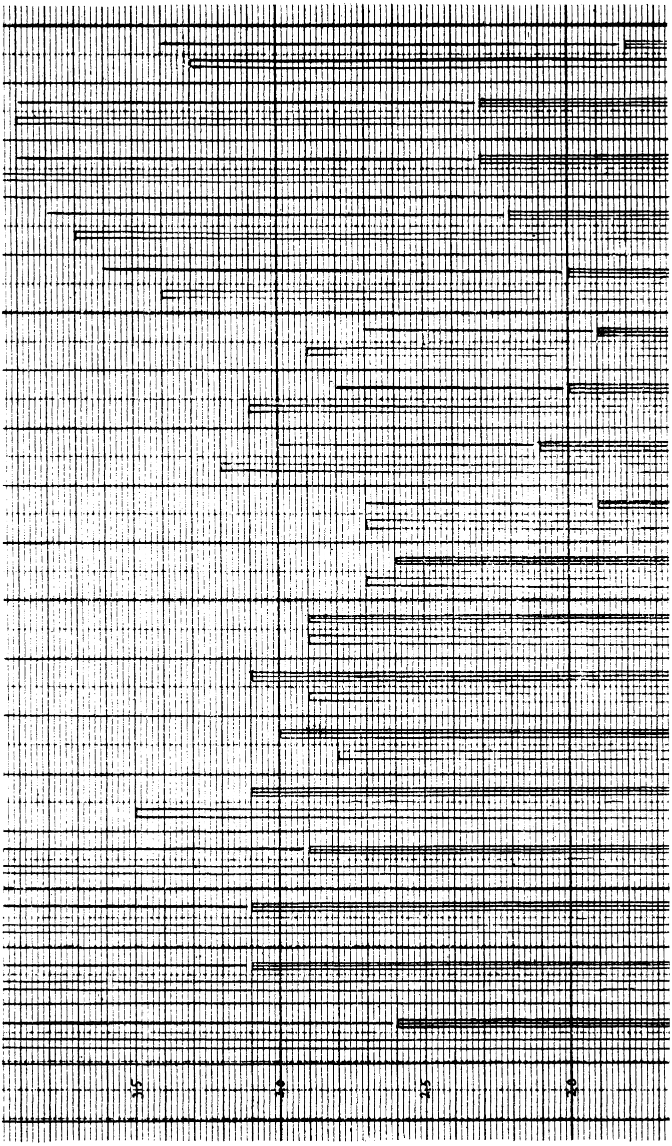


DIAGRAM II — IMPORT PRICES OF HAWAIIAN AND OTHER RAW CANE SUGAR.



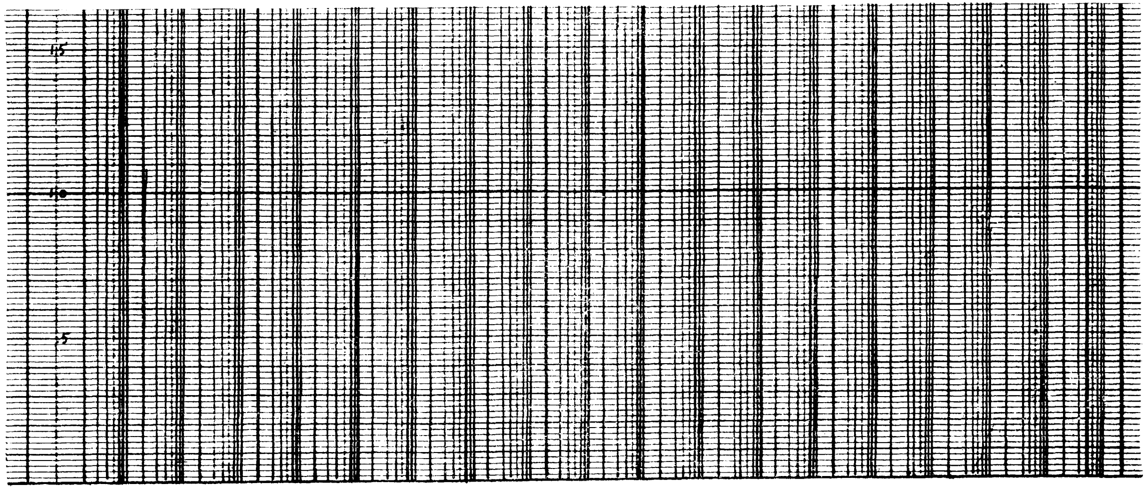
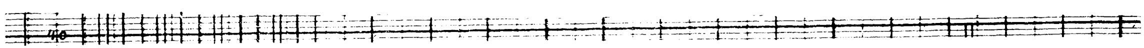


DIAGRAM II — IMPORT PRICES OF HAWAIIAN AND OTHER
RAW CANE SUGAR



prices in this country. It is the portion of the necessary supply produced under least favorable conditions that determines the price of the whole supply. Portions produced under specially favorable conditions, either natural or legal, so long as insufficient to supply the entire demand, do not directly lower the price, but provide a surplus profit over the marginal cost, measuring the special advantage enjoyed. The only possible effect of the reciprocity treaty in lowering prices is that, through increased production and importation into this market, it may have prevented resort to more expensive supplies than have been actually required. Of course, any increase in the supply tends in this way to lower the marginal price, and any decrease to raise it; but no such effect of the treaty has been shown, and, if present at all, is doubtless small compared with the loss in revenue through the operation of the treaty.

While the fact is generally recognized that the Hawaiian treaty tended to increase profits, and not to lower prices, it may be well to strengthen the argument by statistics showing the range of prices under the various tariff acts. See also Diagram II.

The close correspondence between the difference in favor of Hawaiian sugar and the duty to which other sugar is liable shows clearly that the amount remitted has not accrued to the consumer, but to the producer, to the shipper, or to the importer. Not only has the excess in price varied directly with the amount of duties, but it disappeared entirely under the McKinley act. That act, taking away for a time the legal stimulus to the Hawaiian industry is said to have resulted in the introduction of improved machinery and the adoption of more economical processes.* While undoubtedly more economical methods of production were made necessary, commercial statistics, both American and Hawaiian, show a marked decrease in

* Caspar Whitney, Hawaiian America, pp. 193, 194.

AVERAGE IMPORT PRICE OF HAWAIIAN AND OTHER CANE SUGAR NOT ABOVE NO. 16 DUTCH STANDARD, 1888–1902.*

[Cents per pound.]

FISCAL YEARS ENDING JUNE 30.	Average import price of		Difference in favor of Hawaiian.	Average regular duty.
	Hawaiian sugar.	Other.		
Act of 1883.				
1888	4.5	2.6	1.9	2.0
1889	5.0	3.0	2.0	2.0
1890	5.1	3.1	2.0	2.1
1891 (to March 31)	4.4	2.9	1.5	2.1
Act of 1890.				
1891 (April 1 to June 30)	3.5	3.1	.4	—
1892	2.8	3.0	–.2	—
1893	2.9	3.1	–.2	—
1894	2.9	2.9	—	—
1895 (to August 27, 1894)	2.7	2.6	.1	—
Act of 1894.				
1895 (after August 27, 1894)	2.7	1.9	.8	.8
1896	3.2	2.1	1.1	.9
1897	3.1	2.0	1.1	.8
1898 (July, 1897)	2.9	1.9	1.0	.8
Act of 1897.				
1898 (August, 1897, to June)	3.4	2.0	1.4	1.6
1899	3.7	2.2	1.5	1.6
1900	4.0	†2.3	1.7	1.6
1901	3.9	†2.3	1.6	1.6
1902	3.3	†1.8	1.5	1.6

the importation of machinery after the McKinley act went into effect. Industrial depression may lead in the end to the use of larger capital, but its immediate effect is in the opposite direction. With the withdrawal of a special incentive, the tendency is to stop sinking new capital,

* The average import prices given in this table and that on page 68 represent the values at the ports of shipment, and are obtained by dividing the total quantity into the declared value of the sugar imported, as officially recorded by the Treasury Department. The average duty is similarly obtained by dividing the quantity of the dutiable imports for consumption into the duties actually collected.

† Exclusive of Porto Rican after April, 1900.

but to increase production as far as possible by other means,—by more careful methods rather than by more expensive machinery.

The opportunity for special gain has led to enormous investments by Americans in Hawaiian sugar lands. Much of the production is carried on by incorporated companies, whose stocks are regularly traded in both in Honolulu and San Francisco. United action is obtained through the Hawaiian Sugar Planters' Association. The sugar industry of Hawaii illustrates clearly the natural effects of uniting tropical fertility with American enterprise, aided by tariff exemption.

The withdrawal of special encouragement to the Hawaiian sugar industry under the McKinley act has not been sufficiently brought out in criticisms of the sugar bounty. The additional administrative expenses involved in paying the bounty amounted to $400,000 * aside from the bounty itself. This cost, combined with the unusual form of the protection accorded, has seemed sufficient to prevent a second recourse to a bounty. It must be remembered, however, that the bounty not only afforded a conspicuous form of protection and one intended to continue for a definite period, but that by withdrawing protection from Hawaiian sugar it saved to American consumers, with no loss whatever to the treasury, the duty on a billion pounds of sugar,—equivalent to $20,000,000 at the rates under the act of 1883, or to $16,000,000 at the rates of the present tariff.

Porto Rican Sugar.

Free trade between this country and Porto Rico was originally recommended by President McKinley. The disastrous hurricane of 1899 and the loss of the Spanish market were urged as special reasons for immediate legis-

* Report, Commissioner of Internal Revenue, 1894, p. 194.

lation in aid of the Porto Rican industry. A hard fight was, however, made by the beet-sugar interests to prevent free trade. The opposition did not result from fear of immediate lower prices for the domestic product, but from fear that the law would serve as a precedent for similar legislation later in regard to the Philippines and Cuba.* It came to be generally felt in Congress, moreover, that it might be advantageous to test the constitutionality of a customs barrier between the United States and the dependencies. A bill was accordingly introduced providing for the collection of 25 per cent. of the regular duties on all goods shipped between the United States and Porto Rico, the duties thus collected on Porto Rican goods imported into the United States to be "used for the government and benefit of Puerto Rico." A most violent outcry was raised against the bill. The treatment of Porto Rico as foreign territory was declared to be opposed to precedent, inconsistent with our form of government, and unconstitutional. Congress yielded to the popular clamor so far as to reduce the rate to 15 per cent. of the regular duties, and to make the imposition of that duty terminate not later than March 1, 1902, or sooner, if an adequate system of insular revenue should be put into operation before that date. The 15 per cent. duties were actually removed on July 25, 1901, and trade between Porto Rico and the United States was assimilated to coastwise commerce.

The coffee industry received far greater injury than the sugar industry from the hurricane and from the loss of the Spanish market. Sugar was but little affected by the hurricane; † and its principal market had been, not in Spain, but in the United States.‡

* Puerto Rico, Hearings before Committee on Ways and Means, 56th Congress, 1st session (1900), p. 34.

† Puerto Rico Hearings, 56th Congress, 1st session, pp. 8, 51; House Report No. 249, same session, p. 2.

‡ Frank H. Hitchcock, Trade of Puerto Rico, Department of Agriculture Foreign Markets Bulletin No. 13, p. 25.

It seems, therefore, rather unfortunate that coffee gained no direct benefit and sugar almost the whole benefit* from the reduction (and later the removal) of duties, which was hastened by the distress in the coffee industry. The assistance given took direction from the public sentiment in favor of free intercourse with our dependencies, and accordingly had no reference to varying industrial needs. The total duties collected during May and June, 1900, amounted to $135,000, of which $122,000 was paid on sugar. Thus, of the total duty remitted, $763,000, the sugar exporters saved $691,000, or over 90 per cent. From July 1, 1900, to July 25, 1901, the duties remitted were, on all articles, $2,540,000, and on sugar alone, $1,898,000, so that sugar enjoyed nearly 75 per cent. of the gain.

The remission of 85 per cent. of the regular duties on Porto Rican sugar, like the free admission of Hawaiian sugar, did not decrease the price in this country, but acted as a stimulus to the industry. Some stimulus might well be justified by the relatively backward condition of the Porto Rican industry, indicated by the large quantity of muscovado sugar produced. Under the Foraker act — from May 1, 1900, to July 25, 1901 — 84,000,000 pounds, or 43 per cent. of the total cane sugar imported into this country from Porto Rico, tested not above 90 degrees, and 111,000,000 pounds, or 57 per cent., above 90 degrees, that test representing very roughly the separation between muscovado (open-kettle) and centrifugal (vacuum-pan) sugars. The average test of the sugar imported from Porto Rico was only a little over 92 degrees. At that polarization the regular duty would be 1.545 cents per pound. Under the Foraker act the duty was reduced to about .2 cent (15 per cent. of the regular

* Partly in recognition of this gain the Porto Rican revenue law of 1901 wisely imposed an excise duty of 60 cents per gallon on rum. J. H. Hollander, Excise Taxation in Porto Rico, *Quarterly Journal of Economics*, vol. xvi. pp. 197, 198, 209.

duty), so that on the average 1.3 cents per pound was remitted.

The following table and Diagram III. show the comparative prices of Porto Rican and Cuban sugar for several years prior to the passage of the Foraker act, under that act, and under free trade with Porto Rico: —

AVERAGE IMPORT PRICE OF PORTO RICAN AND CUBAN SUGAR NOT ABOVE NO. 16 DUTCH STANDARD, 1895–1902.

[Cents per pound.]

FISCAL YEARS ENDING JUNE 30.	Average import price of		Difference in favor of		Average duty remitted on Porto Rican.
	Porto Rican sugar.	Cuban sugar.	Porto Rican sugar.	Cuban sugar.	
1895	1.8	2.2	—	.4	—
1896	2.1	2.2	—	.1	—
1897	1.8	2.1	—	.3	—
1898	1.9	2.2	—	.3	—
1899	2.3	2.5	—	.2	—
1900 (to April 30) .	2.4	2.6	—	.2	—
Foraker Act.					
1900 (May–June). .	3.8	2.6	1.2	—	1.3
1901	3.4	2.4	1.0	—	1.3
1902 (July, 1901) . .	3.5	2.3	1.2	—	1.3
Free Trade.					
1902 (August, 1901, to June) . . .	3.2	1.8	1.4	—	1.5

The excess in the price of Cuban sugar, as long as full duties were enforced against Porto Rico, was due to the higher grade of the product in the larger island. The industry in Cuba is organized on a much larger scale than in Porto Rico. According to the Porto Rican census (1899)* the 345 mills in that island had an average capacity of little more than one-fifteenth and an aggregate capacity of little more than one-tenth that of the 207 Cuban factories. The Cuban product is nearly all cen-

* Page 155.

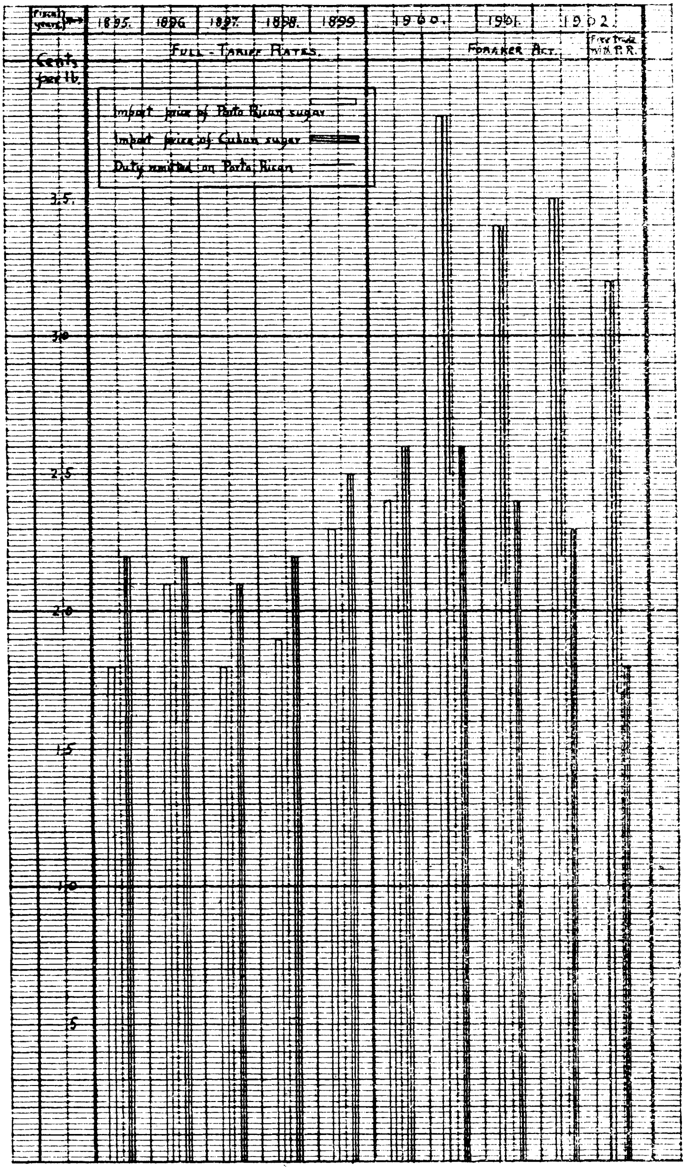


DIAGRAM III IMPORT PRICES OF PORTO RICAN AND CUBAN SUGAR

trifugal sugar. According to Willett & Gray's quotations the average difference in the New York prices of 89-degree muscovado and 96-degree centrifugal for 1899–1901 was one-half cent a pound. To obtain from commercial statistics the difference in value at the ports of shipment, the duties on the two grades and the cost of transportation must be deducted. The duty on 89-degree (muscovado) sugar is 1.44 cents and on 96-degree (centrifugal) 1.685 cents. The regular freight rate from San Juan has averaged about 16 cents, and from Havana about 9 cents. It may be assumed that 43 per cent. of the Porto Rican supply is muscovado. As the following tabular statement indicates, the average foreign value of Cuban sugar exceeded that of Porto Rico by about .18 cent per pound: —

	89° *Muscovado.* *Cents.*	96° *Centrifugal.* *Cents.*	
New York duty-paid price, average for 1899 . . .	3.92	4.42	
Duty	1.44	1.685	
	From Porto Rico. (43 *per cent.*)	*From Porto Rico.* (57 *per cent.*)	*From Cuba.* (100 *per cent.*)
Freight	.16	.16	.09
Hence cost at port of shipment	2.32	2.575	2.645
Same, weighted average . .	2.465		2.645
Difference in favor of Cuban			.18

Comparisons, similar in method, based on the average prices in New York during 1901 (for muscovado 3.53 cents, and for centrifugal 4.05 cents) show an excess of 1.15 cents, foreign valuation, in favor of Porto Rican sugar paying 15 per cent. of the regular duties over Cuban sugar at full duty, and of 1.39 cents in favor of Porto Rican sugar free of duty. The comparisons assume that the foreign price of sugar is the quoted New York price, duty paid, less the actual expenses (freight, duty, etc.) incurred in shipment to New York, and, therefore, that

the remission of a duty correspondingly increases the foreign price. They take into account differences in the grade of the sugar.

The differences * thus obtained correspond very closely with the differences in declared values shown in the table given on page 68, where .2 cent represents the difference in favor of Cuban sugar, while Porto Rican sugar was subject to the full Dingley rates; a little over 1 cent the difference in favor of Porto Rican, when 1.3 cents duty was remitted from such sugar; and 1.4 cents in favor of Porto Rican when the entire duty (1.5 cents) was removed. The increased relative price of Porto Rican sugar imported into this country, according to our import statistics, has thus been almost exactly equal to the duty remitted. It follows, as the statistics relating to the price of Hawaiian sugar also indicate, that a duty remitted on a portion of the supply does not result in cheaper prices, but in increased profits — to the producer, to the shipper, or to the importer.

While the purpose of the Foraker act was to remove obstacles to trade, its actual effect was not to reduce, but to impose a duty. The decision in the case of De Lima *v.* Bidwell, that from April 11, 1899, "Porto Rico was not a foreign country within the meaning of the tariff laws, but a territory of the United States," rendered the Dingley act inoperative so far as Porto Rico was concerned; and consequently all duties collected under that act were illegal, and had to be refunded. The Foraker act was at the same time declared constitutional by the accompanying decision (in the second insular case, Downes *v.* Bidwell), which held that Porto Rico is "not a part of the United States within the revenue clauses of the Constitution." That the period from April 11, 1899, to April 30, 1900, was one of free trade was not definitely

* .18 cent per pound in favor of Cuban sugar under the full Dingley rates, 1.15 cents in favor of Porto Rican under the Foraker act, and 1.39 cents in favor of Porto Rican under free trade with that island.

known until more than a year after its close; and hence the duty refunded could not affect domestic prices, and could benefit the shipper only in case of a special contract providing for the contingency. In any event no statistical indication of gain is possible, for returns were made on the assumption that the Dingley duties would be enforced.

Cuban Sugar.

From January, 1902, throughout the long session of the Fifty-seventh Congress, the question of reciprocity with Cuba was hotly contested. The controversy was no less violent because fought out chiefly in the committee-room, the caucus, and the lobby rather than upon the floor of Congress.

The demand for tariff reduction was not, as in the case of Porto Rico, based on a physical disaster, but on an economic cause directly affecting the cane industry,— a marked fall in the world price of sugar. The industrial well-being of the island, which depends to a marked degree on the prosperity of the sugar planters, was represented as in turn essential to the preservation of Cuba's independence. Reduced sugar duties were also favored as fair compensation for the obligations imposed by the Platt amendment. The personal influence, moreover, in favor of reciprocity — the strong desire of President McKinley, the advocacy of President Roosevelt, the conviction of the War Department, and the force of the administration leaders in Congress — seemed sufficient to guarantee the speedy adoption of that policy.

The agitation of beet-sugar leaders against Cuban reciprocity, however, developed unexpected strength. With their own industry the outgrowth of tariff legislation, they were in an excellent strategic position to withstand new legislation which threatened even remote danger to them. Hawaiian and Porto Rican free sugar was an

accomplished fact. Their partial success in postponing the adoption of absolute free trade with Porto Rico encouraged the beet-sugar advocates to even stronger efforts to prevent any further reduction of the sugar duties. The Cuban industry was far greater in magnitude; it contained the promise of large expansion; and it was not domestic, like the Hawaiian or the Porto Rican. An enormous increase in the production of sugar not liable to the full duties was feared, which might within a few years supply the whole market and through internal competition cause a reduction in price.

The chief point of attack by the opponents of Cuban reciprocity was the alleged interest of the sugar trust in the tariff reduction. It was generally known that American investments in the island were heavy.* The investors were naturally to a large extent already interested in the sugar industry; and several had had, and it was suspected still had, business connection with the American Refining Company. During the summer of 1901, when a new issue of that company's stock was recommended, Mr. Havemeyer was reported to have intimated in an interview that the purchase of sugar estates in our insular dependencies was contemplated. That interview, if authorized (as was virtually denied before the Senate Committee on Cuban Relations) † may have had reference only to Porto Rico, or may have been intended to divert attention from the real object of the issue. These facts, nevertheless, taken in connection with the advocacy of Cuban reciprocity by persons generally identified with the American Sugar Refining Company's interests, gave color to the contention that that corporation would gain largely from reduced duties. The policy of purchasing cane lands in Cuba seemed antecedently probable because of the large gains

* Hearings, House Committee (1902), pp. 11, 85, 343, 358.

† Hearings, Senate Committee (1902), p. 12; compare *Journal of Commerce* July 27, 1901.

obtained from the heavy investments of Western refiners in Hawaii. Much stress was laid by beet-sugar promoters on the new claim, advanced during the hearings,* that, owing to the stronger economic position of the refiner, the larger part of the duty remitted would go to him instead of to the producer. The planter, to get the advantage of a preferential duty, is limited to a single market. The refiner is not confined to any one country for his supply.

Although their own protection is measured by the duty on refined sugar, the beet-sugar interests, curiously enough, combined with the minority representatives in the House to amend the Cuban bill by cutting off the differential on refined sugar. This action was doubtless intended both as a challenge to the refiners and as an impediment to the bill that in the end would prevent its enactment. As amended, the bill passed the House of Representatives on April 18.

When the Cuban reciprocity bill reached the Senate, a comprehensive investigation was undertaken to ascertain the actual beneficiaries from reduced duties. The interests opposed to the bill were able, however, aided by the number and importance of other measures pending, to prevent any action being taken by the Senate.

Philippine Sugar.

Tariff legislation for the Philippines was made necessary by the decision of the Fourteen Diamond Ring case on December 2, 1901, in which it was held that the Philippine Islands, like Porto Rico, were not foreign within the meaning of the Dingley act, and hence that the duties imposed by that act were not applicable. On March 8, 1902, a bill imposing a duty of 25 per cent. less than the regular rates, with a further reduction equal to the export duty levied in the Philippines, was enacted with little or

* Hearings, House Committee (1902), pp. 169, 236-237, 303.

no opposition. At 84 degrees, said to be the average test of the Philippine sugar imported,* the regular Dingley duty is 1.265 cents per pound. The insular export duty is 5 cents per 100 kilograms, or .02 cent per pound. Hence the import duty on Philippine sugar is .93 cent, or .34 cent† less than the duty on foreign sugar of an equal grade. The backward nature of the sugar industry in the islands, their distance from this country, and the need of promoting intercourse, amply justify this comparatively slight advantage accorded Philippine sugar.

Effects of Tariff Exemption.

It should be clearly recognized that each tariff discrimination is an instance of protection to insular industry, and, so long as part of the necessary supply is liable to a higher duty, diverts into private hands part of the tax paid by consumers in the form of higher prices. The question whether the producer or the refiner obtains this gain has recently come to the front. During the Porto Rican discussion it was generally assumed that the planter would gain the duty remitted. The beet-sugar witnesses took the new position, during the Cuban agitation, that the American refining interests gain not only through practical ownership of insular plantations and factories, sometimes even when nominal ownership is vested elsewhere, but in all cases through control of the market. The preferential necessitates marketing the crop in this country. Unity of action on the part of the purchasers might materially lower the price in such cases. Mr. Havemeyer, before the Senate committee,‡ admitted a possible reduction of one-sixteenth of a cent from that cause.

The portion of the Hawaiian crop not required by the

* Willett & Gray, March 13, 1902.

† More precisely, .339 = 1.265 — (25% × 1.265) — .023.

‡ Hearings, Senate Committee (1902), p. 9.

Pacific coast is sold to the American Sugar Refining Company under a contract, the exact terms of which have not been disclosed. They are said to be the New York duty-paid price on the day preceding the arrival of the cargo.* It seems, however, unlikely that the Hawaiian sugar marketed in New York brings the full duty-paid price with no discount or rebate; for a contract to take the sugar at market prices whenever delivered would surrender the economic gain, frequently claimed for industrial combinations, of purchasing raw materials somewhat below regular rates by playing off one source of supply against another, and by taking advantage of temporary market conditions.

In their issue of October 27, 1898, Willett & Gray announced a sale of 5,000 tons of Hawaiian sugar to the Arbuckle refinery at the regular duty-paid price, and then remarked that previously, "on account of these sugars paying no duty, refiners have been accustomed to expect and sellers have been willing to make concessions of about $\frac{1}{8}$ cent per pound." In the next week's issue a new contract between the American Sugar Refining Company and the Hawaiian producers was reported at a price "understood to be better for the planters than any previous contracts, and yet below the parity of centrifugals at the time of delivery." † The comment of Willett & Gray on the contract of 1900 was as follows: ‡ "This is an advan-

* Hearings, Senate Committee (1902), p. 66. For San Francisco deliveries the price is apparently $\frac{3}{16}$ cent less than the New York price. *Louisiana Planter*, vol. xxviii. (1902), p. 39. See speech of Chester I. Long in the House of Representatives, April 11, 1902, where a difference of $\frac{3}{8}$ cent is alleged. The difference between the New York and the San Francisco price is usually referred to lower ocean freights. Perhaps a more accurate explanation, which, however, comes to the same result, is as follows: The San Francisco market for raw sugar being limited and secondary to New York, the marginal value of sugar at San Francisco is the New York price, less the constructive cost of transportation there,—in practice less the difference in water carriage from Honolulu to New York and to San Francisco. Similarly, New Orleans prices during the active crop season range below New York by about the freight rate between the two points.

† Willett & Gray, November 3, 1898. ‡ Ibid. September 13, 1900.

tageous arrangement for the American Sugar Refining Company, and at the same time assures a market for the planters' product." It seems reasonably certain that the price obtained by the Hawaiian producers has been increased the amount of the duty remitted less a small discount.

Hawaiian producers, however, possess certain competitive advantages in dealing with American refiners not enjoyed to the same extent in the other dependencies. They produce on a large scale, they are united in the Hawaiian Sugar Planters' Association, and they control a refinery in California,* to which native sugar is shipped in a considerable amount. In Porto Rico conditions are entirely different. Production on a small scale is not uncommon, and planters possess no organization. Yet the evidence from import statistics and from commercial records of sales seems to indicate that the price of Porto Rican sugar has been raised approximately by the amount of the duty remitted.† While refiners enjoy a real competitive advantage over sellers under special tariff exemptions in not being confined to a single source of supply, that advantage is limited. The possibility of direct shipment by planters to New York, while not usually very advantageous,‡ remains. So also does the possibility of sale to independent refiners. The specially favored sugar possesses a higher value to the importer which can be claimed at least by the stronger producers, who are in a position to wait until market conditions become favorable.

Notwithstanding the strenuous efforts made to prove that Porto Rican planters failed to obtain the full benefit

*Hearings, Senate Committee (1902), pp. 52–53. Mr. Spreckels is likewise interested in a second (larger) refinery, as well as in the production of Hawaii cane and California beet sugar.

† Willett & Gray, March 6, 1902; Speech of Chester I. Long; S. A. Knapp, Agricultural Resources and Capabilities of Porto Rico (House Document No. 171, 56th Congress, 2d session), p. 15.

‡ Hearings, Senate Committee (1902), pp. 61, 84–85.

from the tariff reduction, no special instances were cited to offset those adduced to show that the commercial price was adequately increased. The omission is rendered more pronounced because the Porto Ricans seemed to be in sympathy with the beet-sugar producers in opposing the reduction of duties on Cuban sugar.*

Assuming that the value of sugar in the ports of Porto Rico has been increased by approximately the amount of the duties remitted, the question is still unsolved how far that increase is distributed among the actual producers. At every step in the process of marketing the crop there is an additional opportunity for gain to the middleman, varying inversely with the economic strength of the man with whom he deals. While no evidence is available on the subject, it seems not improbable that brokers and exporters, who are doubtlessly closely associated in interest with American importers, have profited largely from the improved market conditions.

In the case of Cuba there seems to be less danger than in Porto Rico of relatively large gains being obtained by dealers instead of producers. The much larger scale of production practised in Cuba strengthens the economic position of the producers. It is the commercial custom there, as well as in Louisiana, for central factories to pay for each ton of cane purchased the quoted price of a fixed quantity of sugar.† This method of payment tends to distribute any market advantage, even among the mere producers of cane (the colonios). The planter and the factory, according to some of the testimony, gain about equally from an increase in price.

* Hearings, House Committee (1902), pp. 522–523.

† Hearings, House Committee (1902), p. 356; Census of Cuba (1899), p. 526; Twelfth Census, Report on Agriculture, Part II., p. 457. On Porto Rican conditions, see Puerto Rico Hearings, 56th Congress, 1st session, pp. 15, 23; C. F. Saylor, Progress of the Beet-sugar Industry in 1898, p. 119.

Conclusion.

The question of Cuban reciprocity involves the whole commercial policy of the United States towards its dependencies. It is not the simple question that it is painted either by its advocates, as necessary to keep faith with Cuba, or by its opponents, as disregard of the vested interests of domestic producers. The case for reciprocity has recently been put very strongly and tersely.* Under the free-sugar provision of the McKinley act, Cuba was prosperous; by the repeal of that law, "Cuban sugar was shut out of the American market," and economic distress and the insurrection were the result. To remove the cause of the economic distress, it is argued, reciprocity must be re-established, in aid of which President McKinley promised his influence. The economic side of the argument is clearly at fault. The shipping price is not so much affected by the amount of the duty imposed — that directly increasing only domestic prices — as by its discriminating features, which operate either as handicap or stimulus to the industry of particular countries. Under the act of 1890 Cuban sugar was on the same footing as European beet sugar, and at a disadvantage of 2 cents (bounty) per pound compared with domestic sugar. Under the Dingley act Cuban sugar has an advantage of one-fourth — more precisely .27 — cent per pound over German beet sugar and a disadvantage of less than 1.7 cents compared with domestic sugar. The lower price obtained by Cuban shippers — 1.8 cents in 1902 as compared with 3.1 cents in 1892 — is the result of a general fall in sugar prices. The Hamburg prices of 88-analysis beet sugar show a still more marked decline,— from 3.2 cents on January 7, 1892, to 1.4 cents on January 2, 1902. Cuban sugar under the act of 1890 had no special advantage

* By William Allen White, Cuban Reciprocity — A Moral Issue, *McClure's Magazine*, September, 1902, pp. 387–394.

whatever in the American market; under the act of 1897 it has,— the countervailing duty,— and is at no disadvantage save with domestic and colonial sugar. American law can determine only relative prices and variations from the world price. It does not determine absolute prices except within the United States.

In the discussion the consumer's interest has been generally neglected. No moral solution of the difficulty can be reached without considering duly the effect on prices in this country. The consumer paid during the fiscal year 1902 increased prices on nearly five billion pounds of sugar, of which the duty on considerably more than one-third, amounting to $30,000,000, did not reach the treasury, but went into the hands of the Hawaiian, Louisianan, and Porto Rican planters and of the domestic beet-sugar producers. Hawaii especially, equipped with the best machinery and favored by climatic conditions, is scarcely in need of the full protection it enjoys. Porto Rico possesses a climate far better adapted to cane than that of Louisiana, and its planters do not need equal encouragement to insure the cultivation of sugar.

Some means should, if possible, be devised to lessen the contribution of consumers to the continued success of the American sugar industry in its various domestic and colonial branches. The encouragement of the Cuban industry offers a means — perhaps the most expedient, though not the most direct — to that end. The industry gives promise of steady and rapid growth. Such increase, augmented by the probable increase in other branches of the American industry, brings nearer than ever before the realization of the hope for sufficient sugar of American production to satisfy the entire consumption of the country. When the market in the United States is fully supplied with American sugar, prices will be lowered and the industry gradually localized where economic conditions are best suited to it.

This prospect of lower prices resulting from increased Cuban production was the chief cause of the beet-sugar opposition to reciprocity. The competition between tropical and domestic sugar will undoubtedly become a serious problem. The protection needed in the colonial and the domestic industries differs widely. If popular opinion continues to demand indiscriminately colonial free trade as a corollary to the policy of territorial expansion, the protective policy will become far more costly and difficult of application.

A different degree of protection to the industry in the various islands and in the United States, measuring as precisely as practicable the special adverse conditions affecting each, would minimize the national contribution to sugar production. Even if it should be decided to give up the attempt to cultivate sugar within our old boundaries, a high protective rate must be maintained for years to lessen the injury to the present producers during the transition. To apply the full protection to tropical industry is not only unnecessary and therefore uneconomical, but may foster an unnatural growth of the industry in the dependencies and give rise to vested interests that will complicate the problem in the future.

Fortunately, from a legal point of view Congress seems to be perfectly free to accord special treatment suited to the conditions prevailing in each colony. The insular decisions have declared that neither Porto Rico nor the Philippines form "a part of the United States within the revenue clauses of the Constitution."

There may of course be conclusive political objections to the two methods of granting different rates of protection,— to the retention of a high duty with only partial exemptions in favor of colonial sugar,* and to the substitution of a lower duty on foreign sugar, with free imports of colonial, and a bounty on the product within our former

* Limited in amount to the actual needs in each dependency.

limits. The political side of the problem is, however, outside of the field that I have attempted to cover.

The aim should be to upbuild the sugar industry and to modernize its methods. The problem is to economize the cost of the protection granted without injuring or unduly enriching the domestic or the colonial producers.

The United States, second to no nation in the introduction and use of improved machinery, and with dependencies possessing every climatic advantage, has before it wonderful possibilities in the upbuilding of a scientific cane-sugar industry in the tropics which shall utilize, adapt, and perfect the methods worked out by Germany for beet-sugar production. With European export bounties removed and American enterprise vitalizing the cane-sugar industry, the supremacy of beet-sugar may prove to have been but a temporary incident in the history of sugar.

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